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C O N F I D E N T I A L SECTION 01 OF 04 BEIJING 000284

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SUBJECT: STRATEGIC ECONOMIC DIALOGUE: MEETING WITH PREMIER
WEN JIABAO

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Classified By: Acting Minister-Counselor for Economic Affairs Christopher Beede, Reasons 1.4 (B) and (D).

[1](#)1. (C) Summary: Treasury Secretary Henry Paulson and members of the U.S. delegation to the December 14-15 Strategic Economic Dialogue (SED) met Chinese Premier Wen Jiabao on December 15. Both sides hailed the inaugural SED. Premier Wen said Japan and the EU had approached China about similar talks. Secretary Paulson stressed that opening markets is the best way to contain protectionism. The Premier enumerated ten economic challenges facing China, and suggested that liberalizing United States technology export controls would reduce the bilateral trade imbalance. End Summary.

SED Success Attracted World's Attention

[1](#)2. (C) Secretary Paulson called the SED historic, and thanked Premier Wen for his support for this new initiative. The United States delegation had learned much about China and its views. Both a long-term approach and tangible, measurable outcomes are important.

[1](#)3. (C) Premier Wen said the scale and level of the dialogue was unprecedented and showed that the economic development of the United States and China was mutually beneficial. He noted the European Union and Japan had approached China about establishing similar exchanges.

Open Markets Restrain Protectionist Sentiment

[1](#)4. (C) Secretary Paulson reported that each country had agreed to further open its markets to investments from the other. Liberalizing China's services market would be especially beneficial. Opening China's financial services sector, in particular, would promote more balanced growth. Joint ventures do not work in the financial securities industry. China should eliminate foreign investment caps in

financial services firms to attract world class firms.

15. (C) Secretary Paulson noted protectionist sentiment had grown in the United States. China and the United States needed to do a better job explaining the benefits of trade. The American public focused on the value of the renminbi as a symbol of the fairness of the trade relationship.

16. (C) United States Trade Representative (USTR) Ambassador Susan Schwab added that the best way for China and the United States to combat protectionism is to further open their markets. China and the United States share an interest in a successful WTO Doha round and had an opportunity to work together to save it.

17. (C) Premier Wen said that China was not responsible for the suspension of the Doha round and agreed about the importance of reinvigorating the talks. China would make its utmost efforts to push for the round's resumption.

Significant Trade and Investment Deals

18. (C) Commerce Secretary Carlos Gutierrez reported that five American firms had concluded transactions in China while the SED was ongoing: Home Depot, Amway, Oshkosh, Tyco, and General Electric. Premier Wen added that the China Nuclear Power Corporation's purchase of reactors from Westinghouse should be considered an outcome of the SED.

China's Ten Greatest Economic Challenges

19. (C) The Premier took opportunity of this meeting with many U.S. economic policymakers to outline his view of China's

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greatest economic challenges. First, Premier Wen noted that both China and the United States share a mutual interest in stable and rapid development. The economic interdependence of the China and the United States must serve as the foundation of the SED.

110. (C) Second, the economic relationship between China and the United States is characterized by "complementarity," not friction or tensions. The two countries should continue to base their relationship on the principles of equality, mutual benefit and the pursuit of development. They should work together to address issues taking into account each others' concerns and seeking "win-win outcomes."

China Is Not As Developed As Its Big Cities Suggest

111. (C) Third, it is important that American officials understand China's situation and challenges. Premier Wen had invited three Treasury Secretaries to visit China's regions outside its most developed cities, especially western and agricultural regions. He acknowledged that Secretary Paulson had visited China frequently, but cautioned that China is a difficult country to know well. China remains a developing country with unbalanced development. China will need 100 years to become a developed country. China will concentrate its efforts on economic development and therefore would be unable to threaten or negatively impact other countries. China will also restructure its political system, Premier Wen added.

Imbalances and Limited Resources

112. (C) Fourth, Premier Wen said former Treasury Secretary Rubin had explained to him that all developing countries faced structural economic imbalances. In China's case, such imbalances exist between: urban and rural growth; regions; investment and consumption; and primary, secondary, and

tertiary industries. China is committed to a scientific approach to sustainable development that puts people first.

¶13. (C) Fifth, China's economic development is hampered by its large population and scarce natural resources. China needs to rely on itself to feed its 1.3 billion people. Its primary domestic energy resource is coal, which has led to excess pollution. At the current growth rate, China's population will reach 1.5 billion persons in 20 years. Yet China's arable land is only 120 million hectares. China's per capita water supplies are only 2000 cubic meters, one quarter the world average. Energy conservation and decreased resource consumption are therefore vital to China's sustainable growth.

¶14. (C) Sixth, China wants "blue skies and white clouds" during the 2008 Beijing Olympics and has thus set ambitious targets to decrease sulfur dioxide and carbon dioxide emissions. China needs to leave "blue sky and green land" to future generations.

Reform of Fragile Financial System is Critical

¶15. (C) Seventh, despite China's accomplishments, its financial sector is fragile. China will work hard to build a financial sector that will not be swept away by a typhoon, no matter its strength. China's financial sector reform goals are to continue state-owned bank reform; establish a strong bank supervisory system and develop a full range of capital markets. China has fulfilled its WTO accession agreement commitment to liberalize its financial sector. Seventeen American banks are operating now in China. Going forward, China will need to protect not only its interests but those of investors.

Innovation is Key to Future Growth

¶16. (C) Eighth, the most decisive factor in China's future development is innovation. A "hopeful nation" needs wisdom, branding, innovation, and intellectual property for economic growth. Premier Wen asserted he is even more anxious than

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the United States to protect intellectual property rights (IPR). Full compliance with IPR laws and regulations and effective IPR enforcement are vital to China, the Premier asserted.

China is not Backsliding on Reform

¶17. (C) Ninth, the Premier continued, China has not slowed reform. He observed that USTR Schwab's recent article in the Financial Times said China must accelerate reform. China set its reform goal in 1994 in a directive called "One Subject, Four Systems." The one subject was enterprises, which must operate independently and be responsible for their own profits and losses. The four systems were a national market, a well established social security system, a distribution system allowing the participation of various producers, and a macroeconomic system based on indirect controls. Administrative levers would only be used when other avenues have been exhausted.

Protectionism and Export Controls Threaten Future Gains

¶18. (C) Finally, Premier Wen agreed that the two countries should oppose protectionism. China has made enormous progress opening up. Import tariffs have dropped. China's agricultural tariffs are now lower than those of some developed countries. China has revised 3,000 laws, abolished non-tariff barriers to trade, and opened up 104 services sectors to foreigners, including financial services. China

will open the door wider.

¶19. (C) Premier Wen wanted his American interlocutors to bring home from the SED tangible outcomes and said his visitors' biggest concern is the bilateral trade imbalance. He found it hard to believe the world's most technologically advanced country did not have more to sell China and hoped the United States would relax restrictions on the export of high technology products to China. Through mutual consultations, he expects China and the United States would be able to produce a specific list of technologies that the United States could sell to China.

Participants

¶20. (U) China:

Premier Wen Jiabao
Vice Premier Wu Yi
Finance Minister Jin Renqing
National Development and Reform Commission Chairman Ma Kai
Science and Technology Minister Xu Guanhua
Labor and Social Security Minister Tian Chengping
Communications Minister Li Shenglin
Information Industry Minister Wang Xudong
Commerce Minister Bo Xilai
Health Minister Gao Qiang
People's Bank of China Governor Zhou Xiaochuan
General Administration of Quality Supervision Inspection and Quarantine Administrator Li Changjiang
State Environmental Protection Administrator Zhou Shengxian
Chinese Ambassador to the United States Zhou Wenzhong
State Council Deputy Secretary General Xu Shaoshi
Senior Vice Foreign Minister Yang Jiechi
Vice Finance Minister Li Yong
Foreign Affairs Ministry Director General Liu Jieyi
Foreign Affairs Ministry Director General Lin Jianchao
Foreign Affairs Ministry Director General Luo Linqun

¶21. (U) United States:

Henry Paulson, Secretary of Treasury
Clark T. Randt, Jr., United States Ambassador to China
Michael Leavitt, Secretary of Health and Human Services
Samuel Bodman, Secretary of Energy
Carlos Gutierrez, Secretary of Commerce
Elaine Chao, Secretary of Labor
Susan Schwab, United States Trade Representative
Stephen Johnson, Administrator of the Environmental Protection Agency

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Benjamin Bernanke, Chairman of the Federal Reserve
James Lambright, Chairman and President of Ex-Im Bank
Daniel Sullivan, Assistant Secretary, Department of State
Andrew Steinberg, Assistant Secretary, Department of Transportation
Treasury Department Deputy Chief of Staff Tiya Smith
SEDNEY